

DIRECT TESTIMONY AND EXHIBITS OF
DAVID M. HERPEL, CPA
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2021-324-WS

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

2 A. My name is David M. Herpel. My business address is 1401 Main Street, Suite 900,
3 Columbia, South Carolina 29201. I am employed by the South Carolina Office of
4 Regulatory Staff (“ORS”) as an Audit Manager of the Audit Department.

5 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

6 A. I received a Bachelor of Science Degree with a major in Accounting from the
7 University of South Carolina. I received my Certified Public Accountant (CPA) License in
8 2004 and my license is currently active in the State of South Carolina. Prior to my
9 employment with ORS, I spent approximately eight years in industry at various levels
10 ranging from staff accountant to controller. I also spent approximately fifteen years in
11 public accounting, performing audits, reviews, compilations, and tax returns. I joined ORS
12 in May 2021 in my current role.

13 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE**
14 **COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?**

15 A. No. I have not previously testified before the Commission.

16 **Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?**

17 A. ORS represents the public interest as defined by the South Carolina General
18 Assembly in S. C. Code Ann. § 58-4-10 as:

[T]he concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING, AND HOW DOES YOUR DIRECT TESTIMONY REPRESENT THE PUBLIC INTEREST?

A. The purpose of my direct testimony is to set forth ORS's findings and recommendations resulting from ORS's examination of the Application of Kiawah Island Utility, Incorporated ("KIU" or "Company") in Docket No. 2021-324-WS filed on November 30, 2021 ("Application"). By discussing ORS's examination of the books and records of the Company and recommending appropriate adjustments supported by applicable regulatory, accounting, and audit standards, my testimony promotes the public interest.

Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes. The review to which I testify was performed by me or under my supervision.

Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE EXAMINATION OF THE APPLICATION OF KIU.

A. ORS's examination of the Company's Application consisted of three major steps. In step one, ORS verified that the operating experience, reported by the Company in its Application, was supported by KIU's accounting books and records for the twelve months ending December 31, 2020 ("Test Year"). In the second step, ORS tested the underlying transactions in the books and records for the Test Year to ensure that the transactions were adequately supported, had a stated business purpose, were allowable for ratemaking

purposes, and were properly recorded. Lastly, ORS's examination consisted of adjusting, as necessary, the revenues, expenditures, and capital investments to normalize the Company's operating experience and rate base in accordance with generally accepted regulatory principles and prior Commission orders.

Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. I have attached the following exhibits to my testimony relating to the Application:

- Exhibit DMH-1: Operating Experience, Rate Base and Rate of Return for Combined Operations
- Exhibit DMH-2: Operating Experience, Rate Base and Rate of Return for Water Operations
- Exhibit DMH-3: Operating Experience, Rate Base and Rate of Return for Sewer Operations
- Exhibit DMH-4: Explanation of Accounting and Pro Forma Adjustments
- Exhibit DMH-5: Computation of Depreciation and Amortization Expense
- Exhibit DMH-6: Computation of Income Taxes
- Exhibit DMH-7: Cash Working Capital Allowance
- Exhibit DMH-8: Weighted Cost of Capital
- Exhibit DMH-9: Operating Experience, Rate Base and Rate of Return Reflecting the Company's Proposed Increase

These exhibits were either prepared by me or were prepared under my direction and supervision in compliance with recognized accounting and regulatory procedures for water and wastewater utility rate cases and prior Commission Orders. These exhibits show various aspects of KIU's operations and financial position.

Q. PLEASE DESCRIBE THE FORMAT OF EXHIBIT DMH-1 AND ELABORATE ON THE CALCULATIONS.

A. Exhibit DMH-1 details the Company's operating experience, rate base, and rate of return for combined water and sewer operations for the Test Year. The exhibit's format is designed to reflect the Company's Application per books, ORS's proposed accounting and pro forma adjustments necessary to normalize the results of the Company's Test Year operations and reflect ORS's adjustments necessary to achieve the return on equity recommended by ORS Witness Garrett.

Column (1) details the Application per book amounts reported by KIU for the Test Year. ORS verified total operating revenues of \$9,477,169, total operating expenses of \$8,504,251, other operating loss of \$44,841, and net income for return of \$928,077 to the Company's books and records. The per book rate base of \$23,212,500 produced a return on rate base of 4.00%. As shown on Exhibit DMH-8, the resulting return on equity was 3.49%.

Column (2) details ORS's proposed accounting and pro forma adjustments designed to normalize the Application per books. An explanation of each adjustment is contained in Exhibit DMH-4.

Column (3) details ORS's calculation of a normalized Test Year for KIU by adding columns (1) and (2). After the accounting and pro forma adjustments, net income for return of \$1,290,526 was computed using total operating revenues of \$9,627,708, less total operating expenses of \$8,337,182. Total rate base of \$23,638,873 produced a return on rate base of 5.46%. As shown on Exhibit DMH-8, the resulting return on equity was 6.24%.

Column (4) details ORS's adjustments to revenues, expenses, taxes and other operating income associated with ORS's proposed adjustment. An explanation of each adjustment is contained in Exhibit DMH-4.

Column (5) details the effect of ORS's adjustments by adding columns (3) and (4). Net income for return of \$1,566,891 was computed using total operating revenues of \$9,924,708, less total operating expenses of \$8,413,532, plus Customer Growth of \$20,547 and amortization of Excess Deferred Income Taxes ("EDIT") of \$35,168. Total rate base of \$23,638,873 produced a return on rate base of 6.63%. As shown on Exhibit DMH-8, the resulting return on equity is 8.44%.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN EXHIBIT DMH-4.

A. For comparative purposes, ORS's and KIU's proposed adjustments are both presented in Exhibit DMH-4.

Adjustment 1 – Utility Operating Revenues: ORS proposes to adjust utility operating revenues. This adjustment is comprised of the following operating revenue adjustments:

Adjustment 1A – Utility Operating Revenues: Details of this adjustment are reflected in the direct testimony of ORS Witness Hunnell.

Adjustment 1B – Tap-In Revenues: Details of this adjustment are reflected in the direct testimony of ORS Witness Hunnell.

Adjustment 1C – Fire Hydrant Rental Revenues: Details of this adjustment are reflected in the direct testimony of ORS Witness Hunnell.

Adjustment 2 – Operating Expenses: ORS's total operating expense adjustment is (\$727,020). This adjustment is comprised of the following operating expense adjustments:

Adjustment 2A – Payroll Related Expenses: The Company proposes to annualize salaries and benefits, based on payroll information as of September 30, 2021, which is an adjustment of \$94,492 in the Application. ORS proposes to annualize salaries and benefits using information provided by the Company as of January 18, 2022, the audit cut-off date. ORS's adjustment to annualize salaries and benefits is an increase of \$121,384, which includes an adjustment to overtime in the amount of (\$2,468) and an adjustment to bonuses in the amount of (\$2,850).

ORS's adjustment to overtime was based on earning statements provided by the Company as of December 17, 2021, whereas the Company's overtime was based on the per book amount as of December 31, 2020. ORS included overtime in the amount of \$30,105, whereas the Company included overtime in the amount of \$32,573, which yields the ORS adjustment to overtime of (\$2,468).

The Company's salary and benefits adjustment included test year bonuses of \$2,850. ORS's adjustment proposes to remove bonuses as future bonuses are not known or measurable and are non-recurring. The removal of bonuses is also consistent with KIU's prior rate case, in which the Company and ORS removed bonuses.

Adjustment 2B – Adjustment 2I: Details of these adjustments are reflected in the direct testimony of ORS Witness Rabon.

Adjustment 3 – Depreciation & Amortization Expenses: The Company proposes an adjustment in the amount \$236,788 to depreciation expense to reflect

1 new capital expenditures and asset retirements. The Company's adjustment is based
2 on year-end 2020 actual depreciation expense, pro forma 2021 estimated
3 depreciation expense, and depreciation expense allocated from South West Water
4 Company ("SWWC"), which totals \$1,088,266 of depreciation expense per the
5 Application.

6 ORS proposes an adjustment in the amount of \$143,607 to adjust depreciation
7 expense for ORS adjusted known and measurable and used and useful depreciable plant in
8 service as of December 31, 2021. ORS proposes the following adjustments based on the
9 review of the December 31, 2021 depreciation schedule provided by the Company:

10 1. ORS removed the Secondary Pipeline (add'l cost) – St. John's – Kiawah
11 asset in the amount of \$2,400,000. That amount corresponds to the amount of the
12 settlement payment by KIU to its contractor, Mears Group, Inc., related to the
13 secondary pipeline. Accordingly, ORS removed the corresponding depreciation
14 expense of \$50,174 in 2021. Details related to the removal of the Secondary
15 Pipeline additional costs due to KIU's settlement payment are reflected in the direct
16 testimony of ORS Witness Hipp;

17 2. ORS removed current year 2021 depreciation expense related to assets that
18 were fully depreciated as of December 31, 2021;

19 3. ORS removed current year 2021 depreciation expense for assets retired in
20 2021;

21 4. ORS annualized depreciation expense for assets added in 2021;

22 5. ORS adjusted the useful lives of the Advanced Metering Infrastructure
23 ("AMI") meters added in 2021 from 50 years to 20 years, which increased annual

depreciation by \$10,242. Details of the adjustment to the useful lives of the AMI Meters are reflected in the direct testimony of ORS Witness Hunnell; and,

6. ORS included depreciation expense allocated from SWWC in the amount of \$92,779. ORS's depreciation expense allocation amount from SWWC differs from KIU's allocation amount by (\$4,526). This difference is due to SWWC's Three-Factor Methodology allocation decreasing from 4.3% to 4.1%. Details of the change in the SWWC Three-Factor Methodology allocation are reflected in the direct testimony of ORS Witness Rabon.

ORS calculated total depreciation expense of \$995,085, less the per book amount of \$851,478, yields an adjustment of \$143,607. Details of the ORS depreciation and amortization expense adjustment are shown in Exhibit DMH-5.

Adjustment 4 – Amortization of Utility Plant Acquisition – Water Rights: The Company proposes an adjustment of (\$22,294) to adjust for a fully amortized water rights impact agreement. ORS reviewed the amortization schedule provided by the Company and accepts the Company's adjustment.

Adjustment 5 – Amortization Expense - Other: Details of this adjustment are reflected in the direct testimony of ORS Witness Rabon.

Adjustment 6 – Utility Regulatory Assessment Fees: ORS's total utility regulatory assessment fees adjustment is \$68,240. This adjustment is comprised of the following adjustments:

Adjustment 6A – Reclassify Test Year Gross Receipts Tax: The Company proposes to reclass \$51,748 from other taxes and licenses to utility regulatory assessment fees. ORS proposes to reclass \$54,372, which is the amount accrued by

the Company during the Test Year for gross receipts tax that was included in other taxes and licenses.

Adjustment 6B – Adjust Gross Receipts Tax: ORS and the Company propose to adjust gross receipts tax after the accounting and pro forma adjustments made to operating revenues. ORS’s adjustment was calculated by applying the gross receipts factor of 0.708793% to total pro forma revenues, less the per book amount of \$54,372, which yields a proposed adjustment of \$13,868.

Adjustment 7 – Property Taxes: The Company proposes to increase property taxes for plant in service and net contributions in aid of construction (“CIAC”) in the amount of \$146,926. ORS proposes an adjustment to property taxes based upon ORS’s adjusted net plant in service and net CIAC in the amount of \$81,655. ORS calculated pro forma property taxes of \$569,122 as compared to per book property taxes of \$487,467, for an adjustment of \$81,655. ORS allocated the property tax adjustment between water and sewer operations using the ORS adjusted taxable values for water and sewer plant in service.

Adjustment 8 – Payroll Taxes: The Company proposes an adjustment to payroll taxes associated with pro forma annualized salaries and wages for the year ended December 31, 2021, using salary information as of September 30, 2021, in the amount of \$5,559. ORS proposes an adjustment of \$7,907 based on the updated payroll information provided through the audit cutoff date.

Adjustment 9 – Other Taxes and Licenses: The Company proposes adjustments to other taxes and licenses in the amount of (\$47,099). ORS proposes adjustments

1 to other taxes and licenses in the amount of (\$51,814). This adjustment is comprised
2 of the following other taxes and licenses adjustments:

3 **Adjustment 9A – Gross Receipts Tax:** The Company proposes a reclass of
4 (\$51,748) for utility regulatory assessment fees. ORS proposes a reclass of
5 (\$54,372). See ORS Adjustment 6A.

6 **Adjustment 9B – Corporate License Fee:** The Company proposes to adjust
7 corporate license fees by \$4,649 for pro forma revenue and proforma property
8 value. ORS proposes to adjust corporate license fees in the amount of \$2,558 using
9 the ORS pro forma revenue and pro forma property value. The Company and ORS
10 used the South Carolina Department of Revenue (“SCDOR”) factor of 0.003 to
11 compute the increase in license fees for pro forma revenues. The Company and ORS
12 used the factor of 0.001 to compute the increase in license fees for pro forma property
13 value. ORS allocated the increases in license fees to water and sewer operations based
14 on the actual increases in pro forma revenues and pro forma property values for water
15 and sewer operations. ORS’s calculated total license fees of \$52,721, less the
16 Company’s book amount of \$50,163, results in ORS’s proposed adjustment to
17 corporate license fees of \$2,558.

18 **Adjustment 10 – Federal Income Tax:** The Company proposes to adjust federal
19 income taxes reflecting the 21% federal income tax rate after its accounting and pro
20 forma adjustments. ORS proposes to adjust federal income taxes using the 21%
21 federal income tax rate applied to taxable income after ORS’s accounting and pro
22 forma adjustments. Details of ORS’s computation of federal income taxes is shown
23 on Exhibit DMH-6.

Adjustment 11 – State Income Tax: The Company proposes to adjust state income taxes reflecting the 5% state income tax rate after its accounting and pro forma adjustments. ORS proposes to adjust state income taxes using the 5% state income tax rate applied to taxable income after ORS's accounting and pro forma adjustments. Details of ORS's computation of state income taxes is shown on Exhibit DMH-6.

Adjustment 12 – Deferred Federal Income Taxes: The Company proposes to remove deferred federal income tax expense. ORS accepts the Company's adjustment of (\$500,510).

Adjustment 13 – Deferred State Income Taxes: The Company proposes to remove deferred state income tax expense. ORS accepts the Company's adjustment of (\$94,322).

Adjustment 14 -Other Operating Income: The Company proposes to reverse the net loss on disposition of property. ORS accepts the Company's adjustment of \$44,841.

Adjustment 15 – Gross Plant in Service: The Company proposes an adjustment to gross plant in service in the amount of \$4,200,881 to reflect new capital expenditures and asset retirements. The Company's adjustment is based on the year-end 2020 actual plant in service, estimated pro forma 2021 additions and retirements, and plant in service allocated from SWWC.

ORS proposes to adjust gross plant in service as of December 31, 2021. ORS calculated gross plant in service of \$56,937,512, which includes a plant in service allocation from SWWC in the amount of \$397,620. ORS's calculated gross plant in service

1 in the amount of \$56,937,512, less the Company's gross plant in service per book amount
2 of \$55,097,995, yields ORS's adjustment of \$1,839,517. The difference in the Company's
3 adjustment of \$4,200,881 and ORS's calculated adjustment of \$1,839,517 is due to the
4 following adjustments made by ORS to gross plant in service:

5 1. ORS removed the Secondary Pipeline (add'l cost) – St. John's – Kiawah
6 asset in the amount of \$2,400,000 that was placed in service April 2021. Details
7 related to the removal of the Secondary Pipeline additional costs are reflected in the
8 direct testimony of ORS Witness Hipp;

9 2. ORS removed \$200,886 in pro forma retirements. The Company's pro
10 forma adjustment estimated \$109,391 in retirements. However, the Company
11 provided ORS with an updated asset retirement schedule for 2021 that included the
12 \$91,495 in additional pro forma retirements;

13 3. ORS included plant in service allocated from SWWC in the amount of
14 \$397,620. ORS's plant in service allocation from SWWC differs from KIU's
15 allocation amount by \$19,396. This difference is due to SWWC's Three-Factor
16 Methodology allocation decreasing from 4.3% to 4.1%. Details of the change in
17 the SWWC Three-Factor Methodology allocation are reflected in the direct
18 testimony of ORS Witness Rabon; and,

19 4. The remaining difference of \$149,527 is due to the Company's adjustment
20 including estimated pro forma plant in service additions for 2021. ORS's
21 adjustment included actual pro forma plant in service additions for 2021.

22 Details of ORS's proposed gross plant in service are shown in Exhibit DMH-5.

Adjustment 16 – Accumulated Depreciation: The Company proposes to adjust accumulated depreciation in the amount of (\$1,023,987). ORS proposes to adjust accumulated depreciation in the amount of (\$1,391,186) which yields a difference from the Company of (\$367,199). The difference is attributable to the following factors:

1. ORS removed the Secondary Pipeline (add'l cost) – St. John's – Kiawah asset and the corresponding accumulated depreciation. Details related to the removal of the Secondary Pipeline additional costs are reflected in the direct testimony of ORS Witness Hipp;

2. ORS removed actual pro forma 2021 retirements. The Company's adjustment included estimated pro forma retirements for 2021;

3. ORS included plant in service allocated from SWWC and the corresponding accumulated depreciation. ORS's accumulated depreciation allocation from SWWC differs from KIU's allocation amount due to SWWC's Three-Factor Methodology allocation decreasing from 4.3% to 4.1%. Details of the change in the SWWC Three-Factor Methodology allocation are reflected in the direct testimony of ORS Witness Rabon; and,

4. ORS annualized the depreciation related to the pro forma assets added in 2021, which included adjusting the useful lives of the AMI Meters from 50 years to 20 years. Details of the decrease in useful lives related to the AMI Meters are reflected in the direct testimony of ORS Witness Hunnell.

Adjustment 17 – Accumulated Amortization of CIAC: The Company proposes to adjust accumulated amortization of CIAC. ORS reviewed the amortization

1 calculation for accumulated amortization of CIAC and ORS accepts the Company's
2 adjustment of \$385,259.

3 **Adjustment 18 – Accumulated Deferred Income Taxes:** The Company proposes
4 an adjustment to accumulated deferred income taxes. ORS reviewed the
5 Company's calculation for accumulated deferred income taxes and ORS accepts
6 the Company's adjustment of \$119,705.

7 **Adjustment 19 – Cash Working Capital:** The Company proposes to adjust cash
8 working capital using a 45-day allowance or 1/8 of total operating expenses, which
9 includes purchased water and bad debt expense. ORS accepts the Company using a
10 45-day allowance to calculate cash working capital. However, ORS proposes to
11 adjust cash working capital by applying the 45-day allowance or 1/8 to total
12 operating expenses after accounting and pro forma adjustments, less pro forma
13 adjusted purchased water in the amount of \$3,485,070 and per book bad debt
14 expense in the amount of \$3,279.

15 ORS's removal of purchased water is consistent with its calculation of cash
16 working capital for Blue Granite Water Company ("BGWC") in Docket No. 2019-290-
17 WS, Order No. 2020-306. The removal of purchased water is also consistent with the
18 treatment of purchased services when calculating cash working capital in North Carolina¹
19 and in Pennsylvania² when using the 45-day allowance. For example, Pennsylvania
20 recommends the removal of purchased water for water utilities and the removal of non-

¹ "Rate Case Handbook: For Small Water and Sewer Utilities", North Carolina Utility Commission (2002)
(available at: <https://publicstaff.nc.gov/media/163/open>)

² "A Guide to Utility Ratemaking Before the Pennsylvania Public Utility Commission," Pennsylvania Public Utility
Commission (2018) (available at:
https://www.puc.pa.gov/General/publications_reports/pdf/Ratemaking_Guide2018.pdf)

1 cash items such as uncollectibles, taxes, and depreciation when calculating cash working
2 capital before applying the 45-day allowance. In addition, the removal of purchased water
3 is consistent with the exclusion of purchased power from the calculation of cash working
4 capital in South Carolina electric rate case dockets and the exclusion of purchased gas from
5 the calculation of cash working capital in South Carolina Rate Stabilization Act dockets.
6 Similarly, Pennsylvania also recommends the removal of the cost of purchased gas in gas
7 cases and the cost of purchased electricity in electric cases for the calculation of cash
8 working capital when using the 45-day allowance.

9 Bad debt expense is considered a non-cash item and therefore should not be
10 included in the calculation of cash working capital. The removal of bad debt expense from
11 the calculation of cash working capital is consistent with the treatment for Palmetto
12 Wastewater Reclamation, Inc. in Docket No. 2021-153-S, Order No. 2021-814. Bad debt
13 expense has also been excluded in the calculation of cash working capital for BGWC
14 (previously known as Carolina Water Service, Inc.) dockets, most recently in the
15 aforementioned BGWC docket and order.

16 Details of ORS's calculation of the cash working capital adjustment are provided in
17 Exhibit DMH-7.

18 **Adjustment 20 – Interest Expense:** The Company proposes an adjustment for
19 interest synchronization of (\$325,084). ORS also proposes to adjust interest
20 expense using interest synchronization. ORS calculated its adjustment using an
21 allowable rate base of \$23,638,873, a 46.81% debt and 53.19% equity capital
22 structure, and a 4.57% weighted average cost of debt. ORS applied the weighted
23 average cost of debt to the portion of the Company's rate base funded by debt to

1 generate synchronized interest expense of \$505,687. This amount less the
2 Company's per book interest expense amount of \$898,913 yields an adjustment of
3 (\$393,226).

4 **Adjustment 21 – Utility Operating Revenues:** ORS proposes to adjust operating
5 revenues for the return on equity recommendation of ORS Witness Garrett. Details
6 of the proposed water and sewer revenues are reflected in the direct testimony and
7 exhibits of ORS Witness Watkins.

8 **Adjustment 22 – Utility Regulatory Assessment Fees:** The Company and ORS
9 propose to adjust gross receipts taxes using a gross receipts factor of 0.708793%.
10 ORS applied the gross receipts factor of 0.708793% to ORS's proposed adjustment
11 to revenues.

12 **Adjustment 23 – Other Taxes and Licenses:** The Company and ORS propose to
13 adjust corporate license fee taxes using a license fee factor of 0.3%. ORS applied
14 the license fee factor of 0.3% to ORS's proposed adjustments to revenue.

15 **Adjustment 24 – Federal Income Taxes:** The Company and ORS propose to adjust
16 federal income taxes by 21%. ORS proposes to adjust federal income taxes for ORS's
17 adjustments to revenues, gross receipts taxes and license fees using the 21% federal
18 income tax rate. Details of ORS's computation of federal income taxes is shown in
19 Exhibit DMH-6.

20 **Adjustment 25 – State Income Taxes:** The Company and ORS propose to adjust
21 state income taxes by 5%. ORS proposes to adjust state income taxes for ORS's
22 adjustments to revenues, gross receipts taxes and license fees using the 5% state

income tax rate. Details of ORS's computation of state income taxes is shown in Exhibit DMH-6.

Adjustment 26 – Customer Growth: The Company and ORS propose to adjust customer growth for the adjustments to revenues and taxes. ORS proposes to adjust customer growth for total operating income after ORS's proposed adjustment. ORS accepts the growth factors, provided by the Company, of 1.5194% for water and 1.0019% for sewer, which are reflected in the direct testimony of ORS Witness Hunnell.

Adjustment 27 – Amortization of Excess Accumulated Deferred Income Tax: The Company proposes to increase net income by the annual amortization of EDIT due to the Tax Cuts and Jobs Act. The Company's adjustment agrees to the amortization of EDIT, grossed up for taxes, as established in KIU's prior rate case Docket No. 2018-257-WS, Order No. 2019-288. ORS accepts the Company's adjustment of \$35,168.

Q. PLEASE DESCRIBE THE REMAINING EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. Exhibit DMH-5 details the computation of ORS's depreciation and amortization expense adjustment. Exhibit DMH-6 details the computation of income taxes. Exhibit DMH-7 details the calculation of the cash working capital allowance and Exhibit DMH-8 details the calculation of weighted cost of capital. Exhibit DMH-9 details the Company's operating experience, operating margin, rate base, and weighted cost of capital for combined, water, and sewer operations for the test year. The exhibit's format is designed to reflect the Application per books and ORS's proposed accounting and pro forma adjustments necessary

to normalize the results of the Company's test year operations and to reflect the Company's proposed increase as recalculated by ORS.

Q. WILL YOU UPDATE YOUR DIRECT TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or other sources, becomes available.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Operating Experience, Rate Base and Rate of Return
For the Test Year Ended December 31, 2020
Combined Operations

<u>Description</u>	(1) <u>Per</u> <u>Application</u> \$	(2) <u>ORS</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> \$	(3) <u>After ORS</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> \$	(4) <u>ORS</u> <u>Proposed</u> <u>Adjustment</u> \$	(5) <u>After ORS</u> <u>Proposed</u> <u>Adjustment</u> \$
<u>Operating Revenues:</u>					
Utility Operating Revenues	9,477,169	150,539 (1)	9,627,708	297,000 (21)	9,924,708
<u>Total Operating Revenues</u>	<u>9,477,169</u>	<u>150,539</u>	<u>9,627,708</u>	<u>297,000</u>	<u>9,924,708</u>
<u>Operating Expenses:</u>					
Operating Expenses	6,888,756	(727,020) (2)	6,161,736	0	6,161,736
Depreciation and Amortization Expenses	851,478	143,607 (3)	995,085	0	995,085
Amortization of Utility Plant Acquisition - Water Rights	43,256	(22,294) (4)	20,962	0	20,962
Amortization Expense - Other	0	73,383 (5)	73,383	0	73,383
Utility Regulatory Assessment Fees	0	68,240 (6)	68,240	2,105 (22)	70,345
Property Taxes	487,467	81,655 (7)	569,122	0	569,122
Payroll Taxes	69,389	7,907 (8)	77,296	0	77,296
Other Taxes and Licenses	162,256	(51,814) (9)	110,442	891 (23)	111,333
Federal Income Taxes	(490,598)	699,226 (10)	208,628	58,654 (24)	267,282
State Income Taxes	(102,585)	154,873 (11)	52,288	14,700 (25)	66,988
Deferred Federal Income Taxes	500,510	(500,510) (12)	0	0	0
Deferred State Income Taxes	94,322	(94,322) (13)	0	0	0
<u>Total Operating Expenses</u>	<u>8,504,251</u>	<u>(167,069)</u>	<u>8,337,182</u>	<u>76,350</u>	<u>8,413,532</u>
<u>Net Utility Operating Income (Loss)</u>	<u>972,918</u>	<u>317,608</u>	<u>1,290,526</u>	<u>220,650</u>	<u>1,511,178</u>
<u>Other Operating Income</u>					
Gains (Losses) from Disposition of Utility Property	(44,841)	44,841 (14)	0	0	0
Add: Customer Growth	0	0	0	20,547 (26)	20,547
Add: Amortization of Excess Accumulated Deferred Income Tax	0	0	0	35,168 (27)	35,168
<u>Net Income (Loss) for Return</u>	<u>928,077</u>	<u>362,449</u>	<u>1,290,526</u>	<u>276,365</u>	<u>1,566,891</u>
<u>Original Cost Rate Base: Combined</u>					
Gross Plant in Service	55,097,995	1,839,517 (15)	56,937,512	0	56,937,512
Accumulated Depreciation	(22,922,989)	(1,391,186) (16)	(24,314,175)	0	(24,314,175)
Net Plant in Service	32,175,006	448,331	32,623,337	0	32,623,337
Contributions in Aid of Construction (CIAC)	(17,368,022)	0	(17,368,022)	0	(17,368,022)
Accumulated Amortization of CIAC	8,697,105	385,259 (17)	9,082,364	0	9,082,364
Accumulated Deferred Income Taxes	(992,271)	119,705 (18)	(872,566)	0	(872,566)
Excess Deferred Income Taxes (EDIT)	(672,744)	0	(672,744)	0	(672,744)
Materials and Supplies	416,741	0	416,741	0	416,741
Prepayments	95,590	0	95,590	0	95,590
Cash Working Capital	861,095	(526,922) (19)	334,173	0	334,173
<u>Total Rate Base</u>	<u>23,212,500</u>	<u>426,373</u>	<u>23,638,873</u>	<u>0</u>	<u>23,638,873</u>
<u>Return on Rate Base</u>	<u>4.00%</u>		<u>5.46%</u>		<u>6.63%</u>
<u>Operating Margin</u>	<u>0.31%</u>		<u>8.15%</u>		<u>10.69%</u>
<u>Interest Expense</u>	<u>898,913</u>	<u>(393,226) (20)</u>	<u>505,687</u>	<u>0</u>	<u>505,687</u>

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Operating Experience, Rate Base and Rate of Return
For the Test Year Ended December 31, 2020
Water Operations

<u>Description</u>	(1) <u>Per</u> <u>Application</u> <u>\$</u>	(2) <u>ORS</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(3) <u>After ORS</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(4) <u>ORS</u> <u>Proposed</u> <u>Adjustment</u> <u>\$</u>	(5) <u>After ORS</u> <u>Proposed</u> <u>Adjustment</u> <u>\$</u>
<u>Operating Revenues:</u>					
Utility Operating Revenues	7,308,931	65,174 (1)	7,374,105	297,000 (21)	7,671,105
<u>Total Operating Revenues</u>	<u>7,308,931</u>	<u>65,174</u>	<u>7,374,105</u>	<u>297,000</u>	<u>7,671,105</u>
<u>Operating Expenses:</u>					
Operating Expenses	5,396,456	(338,335) (2)	5,058,121	0	5,058,121
Depreciation and Amortization Expenses	579,841	101,337 (3)	681,178	0	681,178
Amortization of Utility Plant Acquisition - Water Rights	43,256	(22,294) (4)	20,962	0	20,962
Amortization Expense - Other	0	21,522 (5)	21,522	0	21,522
Utility Regulatory Assessment Fees	0	52,267 (6)	52,267	2,105 (22)	54,372
Property Taxes	287,924	167,796 (7)	455,720	0	455,720
Payroll Taxes	40,985	4,671 (8)	45,656	0	45,656
Other Taxes and Licenses	95,837	(20,506) (9)	75,331	891 (23)	76,222
Federal Income Taxes	(4,589,162)	4,700,373 (10)	111,211	58,654 (24)	169,865
State Income Taxes	(959,604)	987,477 (11)	27,873	14,700 (25)	42,573
Deferred Federal Income Taxes	4,681,887	(4,681,887) (12)	0	0	0
Deferred State Income Taxes	882,310	(882,310) (13)	0	0	0
<u>Total Operating Expenses</u>	<u>6,459,730</u>	<u>90,111</u>	<u>6,549,841</u>	<u>76,350</u>	<u>6,626,191</u>
<u>Net Utility Operating Income (Loss)</u>	<u>849,201</u>	<u>(24,937)</u>	<u>824,264</u>	<u>220,650</u>	<u>1,044,914</u>
<u>Other Operating Income</u>					
Gains (Losses) from Disposition of Utility Property	(45,452)	45,452 (14)	0	0	0
Add: Customer Growth	0	0	0	15,876 (26)	15,876
Add: Amortization of Excess Accumulated Deferred Income Tax	0	0	0	27,818 (27)	27,818
<u>Net Income (Loss) for Return</u>	<u>803,749</u>	<u>20,515</u>	<u>824,264</u>	<u>264,344</u>	<u>1,088,608</u>
<u>Original Cost Rate Base: Water</u>					
Gross Plant in Service	33,250,642	1,544,011 (15)	34,794,653	0	34,794,653
Accumulated Depreciation	(11,555,949)	(774,322) (16)	(12,330,271)	0	(12,330,271)
Net Plant in Service	21,694,693	769,689	22,464,382	0	22,464,382
Contributions in Aid of Construction (CIAC)	(5,860,751)	0	(5,860,751)	0	(5,860,751)
Accumulated Amortization of CIAC	2,757,281	130,008 (17)	2,887,289	0	2,887,289
Accumulated Deferred Income Taxes	(784,865)	94,684 (18)	(690,181)	0	(690,181)
Excess Deferred Income Taxes (EDIT)	(532,126)	0	(532,126)	0	(532,126)
Materials and Supplies	416,741	0	416,741	0	416,741
Prepayments	92,362	0	92,362	0	92,362
Cash Working Capital	674,557	(478,131) (19)	196,426	0	196,426
<u>Total Rate Base</u>	<u>18,457,892</u>	<u>516,250</u>	<u>18,974,142</u>	<u>0</u>	<u>18,974,142</u>
<u>Return on Rate Base</u>	<u>4.35%</u>		<u>4.34%</u>		<u>5.74%</u>
<u>Operating Margin</u>	<u>3.73%</u>		<u>5.67%</u>		<u>8.90%</u>
<u>Interest Expense</u>	<u>530,947</u>	<u>(125,049) (20)</u>	<u>405,898</u>	<u>0</u>	<u>405,898</u>

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Operating Experience, Rate Base and Rate of Return
For the Test Year Ended December 31, 2020
Sewer Operations

<u>Description</u>	(1) <u>Per</u> <u>Application</u> \$	(2) <u>ORS</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> \$	(3) <u>After ORS</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> \$	(4) <u>ORS</u> <u>Proposed</u> <u>Adjustment</u> \$	(5) <u>After ORS</u> <u>Proposed</u> <u>Adjustment</u> \$
<u>Operating Revenues:</u>					
Utility Operating Revenues	2,168,238	85,365 (1)	2,253,603	0 (21)	2,253,603
<u>Total Operating Revenues</u>	<u>2,168,238</u>	<u>85,365</u>	<u>2,253,603</u>	<u>0</u>	<u>2,253,603</u>
<u>Operating Expenses:</u>					
Operating Expenses	1,492,300	(388,685) (2)	1,103,615	0	1,103,615
Depreciation and Amortization Expenses	271,637	42,270 (3)	313,907	0	313,907
Amortization of Utility Plant Acquisition Adjustments	0	0 (4)	0	0	0
Amortization Expense - Other	0	51,861 (5)	51,861	0	51,861
Utility Regulatory Assessment Fees	0	15,973 (6)	15,973	0 (22)	15,973
Property Taxes	199,543	(86,141) (7)	113,402	0	113,402
Payroll Taxes	28,404	3,236 (8)	31,640	0	31,640
Other Taxes and Licenses	66,419	(31,308) (9)	35,111	0 (23)	35,111
Federal Income Taxes	4,098,564	(4,001,147) (10)	97,417	0 (24)	97,417
State Income Taxes	857,019	(832,604) (11)	24,415	0 (25)	24,415
Deferred Federal Income Taxes	(4,181,377)	4,181,377 (12)	0	0	0
Deferred State Income Taxes	(787,988)	787,988 (13)	0	0	0
<u>Total Operating Expenses</u>	<u>2,044,521</u>	<u>(257,180)</u>	<u>1,787,341</u>	<u>0</u>	<u>1,787,341</u>
<u>Net Utility Operating Income (Loss)</u>	<u>123,717</u>	<u>342,545</u>	<u>466,262</u>	<u>0</u>	<u>466,262</u>
<u>Other Operating Income</u>					
Gains (Losses) from Disposition of Utility Property	611	(611) (14)	0	0	0
Add: Customer Growth	0	0	0	4,671 (26)	4,671
Add: Amortization of Excess Accumulated Deferred Income Tax	0	0	0	7,350 (27)	7,350
<u>Net Income (Loss) for Return</u>	<u>124,328</u>	<u>341,934</u>	<u>466,262</u>	<u>12,021</u>	<u>478,283</u>
<u>Original Cost Rate Base: Sewer</u>					
Gross Plant in Service	21,847,353	295,506 (15)	22,142,859	0	22,142,859
Accumulated Depreciation	(11,367,040)	(616,864) (16)	(11,983,904)	0	(11,983,904)
Net Plant in Service	10,480,313	(321,358)	10,158,955	0	10,158,955
Contributions in Aid of Construction (CIAC)	(11,507,271)	0	(11,507,271)	0	(11,507,271)
Accumulated Amortization of CIAC	5,939,824	255,251 (17)	6,195,075	0	6,195,075
Accumulated Deferred Income Taxes	(207,406)	25,021 (18)	(182,385)	0	(182,385)
Excess Deferred Income Taxes (EDIT)	(140,618)	0	(140,618)	0	(140,618)
Materials and Supplies	0	0	0	0	0
Prepayments	3,228	0	3,228	0	3,228
Cash Working Capital	186,538	(48,791) (19)	137,747	0	137,747
<u>Total Rate Base</u>	<u>4,754,608</u>	<u>(89,877)</u>	<u>4,664,731</u>	<u>0</u>	<u>4,664,731</u>
<u>Return on Rate Base</u>	<u>2.61%</u>		<u>10.00%</u>		<u>10.25%</u>
<u>Operating Margin</u>	<u>-11.24%</u>		<u>16.26%</u>		<u>16.80%</u>
<u>Interest Expense</u>	<u>367,966</u>	<u>(268,177) (20)</u>	<u>99,789</u>	<u>0</u>	<u>99,789</u>

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU ORS Adj. #Adj. #		\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
	Description			
<u>Accounting and Pro forma Adjustments</u>				
(1)	<u>Utility Operating Revenues</u>			
(1)	(A) To adjust revenue based the number of customers as of September 2021 at current tariffed rates.			
	Per ORS	259,647	130,532	129,115
	Per KIU	259,647	130,532	129,115
(2)	(B) To remove tap-in revenue.			
	Per ORS	(119,500)	(75,750)	(43,750)
	Per KIU	(119,500)	(75,750)	(43,750)
	(C) To normalize fire hydrant rental revenues.			
	Per ORS	10,392	10,392	0
	Per KIU	0	0	0
(1)	<u>Total Utility Operating Revenues Adjustment</u>			
	Per ORS	150,539	65,174	85,365
	Per KIU	140,147	54,782	85,365
(2)	<u>Operating Expenses</u>			
(3)	(A) To annualize payroll related expenses to reflect known and measurable increases in effect for 2022 based on payroll information. Allocated between water and sewer - 59.07% and 40.93%.			
	Per ORS	121,384	71,702	49,682
	Per KIU	94,492	55,816	38,676
(4)	(B) To increase purchased water costs to reflect increased costs charged by St. John's Water Company.			
	Per ORS	238,229	238,229	0
	Per KIU	238,229	238,229	0

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU ORS Adj. #Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(5)	(C) To increase purchased power for Santee Cooper settlement.			
	Per ORS	27,682	16,352	11,330
	Per KIU	27,682	16,352	11,330
(6)	(D) To remove tap-in expenses.			
	Per ORS	(119,500)	(75,750)	(43,750)
	Per KIU	(119,500)	(75,750)	(43,750)
(7)	(E) To adjust accounting costs for known audit costs. Allocated between water and sewer - 59.07% and 40.93%.			
	Per ORS	339	200	139
	Per KIU	339	200	139
(8)	(F) To remove nonrecurring legal fees. Allocated between water and sewer - 59.07% and 40.93%.			
	Per ORS	(313,423)	(185,139)	(128,284)
	Per KIU	(313,423)	(185,139)	(128,284)
(9)	(G) To adjust for SWWC management fees to reflect the 3-factor overhead allocation. Allocated between water and sewer - 59.07% and 40.93%.			
	Per ORS	(551,168)	(325,575)	(225,593)
	Per KIU	(436,606)	(257,903)	(178,703)
(10)	(H) To amortize rate case expenses over three years. Allocated between water and sewer - 59.07% and 40.93%.			
	Per ORS	(120,503)	(71,181)	(49,322)
	Per KIU	(47,517)	(28,062)	(19,455)
(11)	(I) To remove nonallowable expenses.			
	Per ORS	(10,060)	(7,173)	(2,887)
	Per KIU	(3,006)	(3,006)	0
(2)	<u>Total Operating Expenses Adjustment</u>			
	Total Per ORS	(727,020)	(338,335)	(388,685)
	Total Per KIU	(559,310)	(239,263)	(320,047)

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU ORS Adj. #Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(12) (3)	<u>Depreciation & Amortization Expenses</u>			
	To adjust depreciation and amortization for 2021 calculated depreciation, pro forma assets placed in service in 2021, and allocated corporate overhead depreciation.			
	Per ORS	143,607	101,337	42,270
	Per KIU	236,788	158,130	78,658
(13) (4)	<u>Amortization of Utility Plant Acquisition - Water Rights</u>			
	To adjust for fully amortized impact agreement.			
	Per ORS	(22,294)	(22,294)	0
	Per KIU	(22,294)	(22,294)	0
(14) (5)	<u>Amortization Expense - Other</u>			
	To amortize known and measurable maintenance costs incurred for sludge removal, tank painting, and Covid-19 personal protective equipment.			
	Per ORS	73,383	21,522	51,861
	Per KIU	73,383	21,522	51,861
(6)	<u>Utility Regulatory Assessment Fees</u>			
(15) (A)	To reclass test year gross receipts tax recorded in other taxes and licenses. Allocated between water and sewer - 59.07% and 40.93%.			
	Per ORS	54,372	32,118	22,254
	Per KIU	51,748	30,568	21,180
(16) (B)	To adjust gross receipts tax after the accounting and pro forma adjustments using a factor of .708793%.			
	Per ORS	13,868	20,149	(6,281)
	Per KIU	(8)	(5)	(3)
(6)	<u>Total Utility Regulatory Assessment Fees Adjustment</u>			
	Total Per ORS	68,240	52,267	15,973
	Total Per KIU	51,740	30,563	21,177

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU ORS Adj. #Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(17) (7)	<u>Property Taxes</u>			
	To adjust property taxes for expected increase.			
	Per ORS	81,655	167,796	(86,141)
	Per KIU	146,926	86,789	60,137
(18) (8)	<u>Payroll Taxes</u>			
	To increase payroll tax for payroll increase. Allocated between water and sewer - 59.07% and 40.93%.			
	Per ORS	7,907	4,671	3,236
	Per KIU	5,559	3,284	2,275
(9)	<u>Other Taxes and Licenses</u>			
(19) (A)	To remove gross receipts tax recorded in other taxes and licenses. Allocated between water and sewer - 59.07% and 40.93%.			
	Per ORS	(54,372)	(32,118)	(22,254)
	Per KIU	(51,748)	(30,568)	(21,180)
(20) (B)	To adjust corporate license fee for proforma fair market value (.001) and revenue changes (.003).			
	Per ORS	2,558	11,612	(9,054)
	Per KIU	4,649	2,746	1,903
(9)	<u>Total Other Taxes and Licenses Adjustment</u>			
	Total Per ORS	(51,814)	(20,506)	(31,308)
	Total Per KIU	(47,099)	(27,822)	(19,277)
(21) (10)	<u>Federal Income Taxes</u>			
	To adjust federal income taxes on pro forma income at 21%. See Exhibit DMH-6.			
	Per ORS	699,226	4,700,373	(4,001,147)
	Per KIU	621,309	4,702,794	(4,081,485)

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU ORS Adj. #Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(21) (11)	<u>State Income Taxes</u>			
	To adjust state income taxes on pro forma income at 5%. See Exhibit DMH-6.			
	Per ORS	154,873	987,477	(832,604)
	Per KIU	135,344	988,083	(852,739)
(22) (12)	<u>Deferred Federal Income Taxes</u>			
	To remove deferred federal income tax expense.			
	Per ORS	(500,510)	(4,681,887)	4,181,377
	Per KIU	(500,510)	(4,681,887)	4,181,377
(22) (13)	<u>Deferred State Income Taxes</u>			
	To remove deferred state income tax expense.			
	Per ORS	(94,322)	(882,310)	787,988
	Per KIU	(94,322)	(882,310)	787,988
(23) (14)	<u>Other Operating Income</u>			
	To reverse gains / losses on disposition of property.			
	Total Per ORS	44,841	45,452	(611)
	Total Per KIU	44,841	45,452	(611)
(15)	<u>Gross Plant In Service</u>			
	To adjust gross plant in service as of 12/31/21. See Exhibit DMH-5.			
	Per ORS	1,839,517	1,544,011	295,506
	Per KIU	4,200,881	3,828,264	372,617

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU ORS Adj. #Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(16)	<u>Accumulated Depreciation</u>			
	To adjust accumulated depreciation as of 12/31/21. See Exhibit DMH-5.			
	Per ORS	(1,391,186)	(774,322)	(616,864)
	Per KIU	(1,023,987)	(660,696)	(363,291)
(17)	<u>Accumulated Amortization of CIAC</u>			
	To adjust accumulated amortization of contributions in aid of construction as of 12/31/21. See Exhibit DMH-5.			
	Per ORS	385,259	130,008	255,251
	Per KIU	385,259	130,008	255,251
(18)	<u>Accumulated Deferred Income Taxes</u>			
	To adjust accumulated deferred income taxes.			
	Per ORS	119,705	94,684	25,021
	Per KIU	119,705	94,684	25,021
(19)	<u>Cash Working Capital</u>			
	To adjust cash working capital after accounting and pro forma adjustments. See Exhibit DMH-7.			
	Per ORS	(526,922)	(478,131)	(48,791)
	Per KIU	(69,914)	(29,908)	(40,006)
(24) (20)	<u>Interest Expense</u>			
	To synchronize interest expense with the portion of rate base financed by debt. See Exhibit DMH-8.			
	Per ORS	(393,226)	(125,049)	(268,177)
	Per KIU	(325,084)	(192,027)	(133,057)

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU ORS Adj. #Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
<u>ORS Proposed Adjustment</u>				
(25) (21)	<u>Utility Operating Revenues</u>			
	To adjust revenues to reflect the rates recommended by ORS. This adjustment is calculated by ORS witness Watkins.			
	Per ORS	297,000	297,000	0
	Per KIU	1,355,996	1,101,606	254,390
(26) (22)	<u>Utility Regulatory Assessment Fees</u>			
	To increase gross receipts after ORS's proposed adjustment using a factor of .708793%.			
	Per ORS	2,105	2,105	0
	Per KIU	9,611	7,808	1,803
(27) (23)	<u>Other Taxes and Licenses</u>			
	To increase the corporate license fee after ORS's proposed adjustment.			
	Per ORS	891	891	0
	Per KIU	4,068	3,305	763
(28) (24)	<u>Federal Income Taxes</u>			
	To adjust federal income taxes after ORS's proposed adjustment using a 21% tax rate. See Exhibit DMH-6.			
	Per ORS	58,654	58,654	0
	Per KIU	267,792	217,553	50,239
(28) (25)	<u>State Income Taxes</u>			
	To adjust state income taxes after ORS's proposed adjustment using a 5% tax rate. See Exhibit DMH-6.			
	Per ORS	14,700	14,700	0
	Per KIU	67,116	54,525	12,591

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2020

KIU ORS Adj. #Adj. #	Description	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
(29) (26)	<u>Customer Growth</u>			
	To adjust for customer growth based on the total operating income after ORS's proposed adjustment. The customer growth factors are 1.5194% for water and 1.0019% for sewer.			
	Per ORS	20,547	15,876	4,671
	Per KIU	28,971	24,080	4,891
(30) (27)	<u>Amortization of Excess Accumulated Deferred Income Tax</u>			
	To adjust for the annual amortization of excess accumulated deferred income taxes due to the Tax Cuts and Jobs Act.			
	Per ORS	35,168	27,818	7,350
	Per KIU	35,168	27,817	7,351

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Computation of Depreciation & Amortization Expense
For the Test Year Ended December 31, 2020

	Combined Operations \$	Asset Class	Water Operations \$	Asset Class	Sewer Operations \$
<u>Plant in Service</u>					
Land and Land Rights	5,268,252	303.2	3,468,252	353.6	1,800,000
Structures & Improvements	16,113,909	304.2	12,717,812	354.4	3,396,097
Wells	171,381	307.2	171,381	N/A	0
Water Treatment	49,679	N/A	0	355.4	49,679
Collections Sewers - Gravity	13,649,037	N/A	0	360.2	13,649,037
Collections Sewers - Force	2,141,766	N/A	0	361.2	2,141,766
Pumping Equipment	1,449,612	311.2	1,117,843	371.3	331,769
Aquifer Storage & Recovery (ASR) Equipment	1,340,815	330.4	1,340,815	N/A	0
Mains	10,459,792	331.4	10,459,792	N/A	0
Meter & Meter Installation	1,718,873	334.4	1,718,873	N/A	0
Fire Hydrants	284,840	335.4	284,840	N/A	0
Other Plant & Miscellaneous Equipment	1,042,889	339.4	917,292	389.4	125,597
Office Furniture & Equipment	297,538	340.5	130,305	390.7	167,233
Transportation Equipment	595,602	341.5	294,151	391.7	301,451
Tools, Shop, and Garage	20,994	343.5	10,497	393.7	10,497
Equipment - Meter	1,050	N/A	0	394.7	1,050
Communication Equipment	2,278	346.5	1,139	396.7	1,139
Miscellaneous Equipment	9,596	347.5	4,798	397.7	4,798
Impact Fees (Water Rights)	1,921,989	302.1	1,921,989	N/A	0
Gross Plant in Service - KIU	56,539,892		34,559,779		21,980,113
SWWC - Plant In Service Allocation	397,620	N/A	234,874	N/A	162,746
Total Gross Plant in Service	56,937,512		34,794,653		22,142,859
Contributions in Aid of Construction (CIAC)	(17,368,022)	331.4.C	(5,860,751)	360.2.C	(11,507,271)
<u>Depreciation Expense</u>					
Land and Land Rights	0	303.2	0	353.6	0
Structures & Improvements	357,293	304.2	268,399	354.4	88,894
Wells	9,272	307.2	9,272	N/A	0
Water Treatment	1,771	N/A	0	355.4	1,771
Collections Sewers - Gravity	307,981	N/A	0	360.2	307,981
Collections Sewers - Force	52,729	N/A	0	361.2	52,729
Pumping Equipment	73,526	311.2	46,172	371.3	27,354
Aquifer Storage & Recovery (ASR) Equipment	31,795	330.4	31,795	N/A	0
Mains	242,568	331.4	242,568	N/A	0
Meter & Meter Installation	58,953	334.4	58,953	N/A	0
Fire Hydrants	7,301	335.4	7,301	N/A	0
Other Plant & Miscellaneous Equipment	62,724	339.4	55,196	389.4	7,528
Office Furniture & Equipment	17,508	340.5	4,758	390.7	12,750
Transportation Equipment	61,118	341.5	30,559	391.7	30,559
Tools, Shop, and Garage	1,400	343.5	700	393.7	700
Equipment - Meter	210	N/A	0	394.7	210
Communication Equipment	456	346.5	228	396.7	228
Miscellaneous Equipment	960	347.5	480	397.7	480
Total Depreciation Expense - KIU	1,287,565		756,381		531,184
SWWC - Depreciation Expense Allocation	92,779		54,805		37,974
Total Depreciation Expense	1,380,344		811,186		569,158
CIAC Amortization Expense	(385,259)	331.4.C	(130,008)	360.2.C	(255,251)
ORS Depreciation & Amortization Expense	995,085		681,178		313,907
Depreciation & Amortization Expense - Per Books	851,478		579,841		271,637
ORS Depreciation & Amortization Expense Adjustment #3	143,607		101,337		42,270

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Computation of Depreciation & Amortization Expense
For the Test Year Ended December 31, 2020

	Combined Operations	Asset Class	Water Operations	Asset Class	Sewer Operations
	\$		\$		\$
<u>Accumulated Depreciation</u>					
Land and Land Rights	0	303.2	0	353.6	0
Structures & Improvements	(5,496,994)	304.2	(3,262,294)	354.4	(2,234,700)
Wells	(36,553)	307.2	(36,553)	N/A	-
Water Treatment	(43,038)	N/A	0	355.4	(43,038)
Collections Sewers - Gravity	(7,653,315)	N/A	0	360.2	(7,653,315)
Collections Sewers - Force	(1,458,240)	N/A	0	361.2	(1,458,240)
Pumping Equipment	(903,918)	311.2	(789,899)	371.3	(114,019)
Aquifer Storage & Recovery (ASR) Equipment	(520,250)	330.4	(520,250)	N/A	0
Mains	(4,686,985)	331.4	(4,686,985)	N/A	0
Meter & Meter Installation	(62,573)	334.4	(62,573)	N/A	0
Fire Hydrants	(194,139)	335.4	(194,139)	N/A	0
Other Plant & Miscellaneous Equipment	(691,661)	339.4	(631,251)	389.4	(60,410)
Office Furniture & Equipment	(253,600)	340.5	(118,326)	390.7	(135,274)
Transportation Equipment	(381,059)	341.5	(186,880)	391.7	(194,179)
Tools, Shop, and Garage	(2,256)	343.5	(1,128)	393.7	(1,128)
Equipment - Meter	(210)	N/A	-	394.7	(210)
Communication Equipment	(798)	346.5	(399)	396.7	(399)
Miscellaneous Equipment	(1,304)	347.5	(652)	397.7	(652)
Impact Fees (Water Rights)	(1,711,451)	302.1	(1,711,451)	N/A	0
Total Accumulated Depreciation - KIUI	(24,098,344)		(12,202,780)		(11,895,564)
SWWC - Accumulated Depreciation Allocation	(215,831)	N/A	(127,491)	N/A	(88,340)
ORS Accumulated Depreciation	(24,314,175)		(12,330,271)		(11,983,904)
ORS Accumulated Amortization of CIAC	9,082,364	331.4.C	2,887,289	360.2.C	6,195,075

Exhibit DMH-6

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Computation of Income Taxes
For the Test Year Ended December 31, 2020

After ORS Accounting & Pro Forma Adjustments			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	9,627,708	7,374,105	2,253,603
Operating Expenses	8,076,266	6,410,757	1,665,509
Net Operating Income Before Taxes	1,551,442	963,348	588,094
Less: Annualized Interest Expense	505,687	405,898	99,789
Taxable Income - State	1,045,755	557,450	488,305
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	52,288	27,873	24,415
Less: State Income Taxes Per Books	(102,585)	(959,604)	857,019
State Income Tax Adjustment - Accounting and Pro Forma Adjustment #11	154,873	987,477	(832,604)
Taxable Income - Federal (Taxable Income - State less State Income Taxes)	993,467	529,577	463,890
Federal Income Taxes %	21.0%	21.0%	21.0%
Federal Income Taxes	208,628	111,211	97,417
Less: Federal Income Taxes Per Books	(490,598)	(4,589,162)	4,098,564
Federal Income Tax Adjustment - Accounting and Pro Forma Adjustment #10	699,226	4,700,373	(4,001,147)
After ORS Proposed Adjustment			
	\$ Combined Operations	\$ Water Operations	\$ Sewer Operations
Operating Revenues	9,924,708	7,671,105	2,253,603
Operating Expenses	8,079,262	6,413,753	1,665,509
Net Operating Income Before Taxes	1,845,446	1,257,352	588,094
Less: Annualized Interest Expense	505,687	405,898	99,789
Taxable Income - State	1,339,759	851,454	488,305
State Income Tax %	5.0%	5.0%	5.0%
State Income Taxes	66,988	42,573	24,415
Less: State Income Taxes After Accounting & Pro Forma Adjustments	52,288	27,873	24,415
State Income Tax Adjustment - Proposed Increase Adjustment #25	14,700	14,700	0
Taxable Income - Federal (Taxable Income - State less State Income Taxes)	1,272,771	808,881	463,890
Federal Income Taxes %	21.0%	21.0%	21.0%
Federal Income Taxes	267,282	169,865	97,417
Less: Federal Income Taxes After Accounting & Pro Forma Adjustments	208,628	111,211	97,417
Federal Income Tax Adjustment - Proposed Increase Adjustment #24	58,654	58,654	0

Kiawah Island Utility, Inc.
Cash Working Capital Allowance
For the Test Year Ended December 31, 2020

After ORS Accounting & Pro Forma Adjustments

	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
Operating Expenses	6,161,736	5,058,121	1,103,615
Less: Bad Debt Expense	3,279	1,640	1,639
Less: Purchased Water	<u>3,485,070</u>	<u>3,485,070</u>	<u>0</u>
Net Operating Expenses	2,673,387	1,571,411	1,101,976
Allowable Rate	<u>12.50%</u>	<u>12.50%</u>	<u>12.50%</u>
Computed Cash Working Capital	334,173	196,426	137,747
Less: Cash Working Capital - Application Per Books	<u>861,095</u>	<u>674,557</u>	<u>186,538</u>
ORS Cash Working Capital Adjustment #19	<u>(526,922)</u>	<u>(478,131)</u>	<u>(48,791)</u>

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Weighted Cost of Capital
For the Test Year Ended December 31, 2020

Combined Operations

Description	Capital Structure	Ratio	Per Application				After ORS Accounting and Pro forma Adjustments				After ORS Proposed Adjustment			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 19,669,858	46.81%	\$ 10,865,771	4.57%	2.14%	\$ 496,566	\$ 11,065,356	4.57%	2.14%	\$ 505,687	\$ 11,065,356	4.57%	2.14%	\$ 505,687
Members' Equity	22,351,064	53.19%	12,346,729	3.49%	1.86%	431,511	12,573,517	6.24%	3.32%	784,839	12,573,517	8.44%	4.49%	1,061,204
Totals	\$ 42,020,922	100.00%	\$ 23,212,500		4.00%	\$ 928,077	\$ 23,638,873		5.46%	\$ 1,290,526	\$ 23,638,873		6.63%	\$ 1,566,891

Water Operations

Description	Capital Structure	Ratio	Per Application				After ORS Accounting and Pro forma Adjustments				After ORS Proposed Adjustment			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 19,669,858	46.81%	\$ 8,640,139	4.57%	2.14%	\$ 394,854	\$ 8,881,796	4.57%	2.14%	\$ 405,898	\$ 8,881,796	4.57%	2.14%	\$ 405,898
Members' Equity	22,351,064	53.19%	9,817,753	4.16%	2.21%	408,895	10,092,346	4.15%	2.20%	418,366	10,092,346	6.76%	3.60%	682,710
Totals	\$ 42,020,922	100.00%	\$ 18,457,892		4.35%	\$ 803,749	\$ 18,974,142		4.34%	\$ 824,264	\$ 18,974,142		5.74%	\$ 1,088,608

Sewer Operations

Description	Capital Structure	Ratio	Per Application				After ORS Accounting and Pro forma Adjustments				After ORS Proposed Adjustment			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 19,669,858	46.81%	\$ 2,225,632	4.57%	2.14%	\$ 101,711	\$ 2,183,561	4.57%	2.14%	\$ 99,789	\$ 2,183,561	4.57%	2.14%	\$ 99,789
Members' Equity	22,351,064	53.19%	2,528,976	0.89%	0.47%	22,617	2,481,170	14.77%	7.86%	366,473	2,481,170	15.25%	8.11%	378,494
Totals	\$ 42,020,922	100.00%	\$ 4,754,608		2.61%	\$ 124,328	\$ 4,664,731		10.00%	\$ 466,262	\$ 4,664,731		10.25%	\$ 478,283

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Operating Experience, Rate Base and Rate of Return Reflecting the Company's Proposed Increase
For the Test Year Ended December 31, 2020
Combined Operations

<u>Description</u>	(1) Per Application \$	(2) ORS Accounting & Pro Forma Adjustments \$	(3) After ORS Accounting & Pro Forma Adjustments \$	(4) Company's Proposed Increase \$	(5) After Company's Proposed Increase \$
<u>Operating Revenues:</u>					
Utility Operating Revenues	9,477,169	150,539 (1)	9,627,708	1,355,996 (21)	10,983,704
<u>Total Operating Revenues</u>	<u>9,477,169</u>	<u>150,539</u>	<u>9,627,708</u>	<u>1,355,996</u>	<u>10,983,704</u>
<u>Operating Expenses:</u>					
Operating Expenses	6,888,756	(727,020) (2)	6,161,736	0	6,161,736
Depreciation and Amortization Expenses	851,478	143,607 (3)	995,085	0	995,085
Amortization of Utility Plant Acquisition - Water Rights	43,256	(22,294) (4)	20,962	0	20,962
Amortization Expense - Other	0	73,383 (5)	73,383	0	73,383
Utility Regulatory Assessment Fees	0	68,240 (6)	68,240	9,611 (22)	77,851
Property Taxes	487,467	81,655 (7)	569,122	0	569,122
Payroll Taxes	69,389	7,907 (8)	77,296	0	77,296
Other Taxes and Licenses	162,256	(51,814) (9)	110,442	4,068 (23)	114,510
Federal Income Taxes	(490,598)	699,226 (10)	208,628	267,793 (24)	476,421
State Income Taxes	(102,585)	154,873 (11)	52,288	67,115 (25)	119,403
Deferred Federal Income Taxes	500,510	(500,510) (12)	0	0	0
Deferred State Income Taxes	94,322	(94,322) (13)	0	0	0
<u>Total Operating Expenses</u>	<u>8,504,251</u>	<u>(167,069)</u>	<u>8,337,182</u>	<u>348,587</u>	<u>8,685,769</u>
<u>Net Utility Operating Income (Loss)</u>	<u>972,918</u>	<u>317,608</u>	<u>1,290,526</u>	<u>1,007,409</u>	<u>2,297,935</u>
<u>Other Operating Income</u>					
Gains (Losses) from Disposition of Utility Property	(44,841)	44,841 (14)	0	0	0
Add: Customer Growth	0	0	0	31,524 (26)	31,524
Add: Amortization of Excess Accumulated Deferred Income Tax	0	0	0	35,168 (27)	35,168
<u>Net Income (Loss) for Return</u>	<u>928,077</u>	<u>362,449</u>	<u>1,290,526</u>	<u>1,074,101</u>	<u>2,364,627</u>
<u>Original Cost Rate Base: Combined</u>					
Gross Plant in Service	55,097,995	1,839,517 (15)	56,937,512	0	56,937,512
Accumulated Depreciation	(22,922,989)	(1,391,186) (16)	(24,314,175)	0	(24,314,175)
Net Plant in Service	32,175,006	448,331	32,623,337	0	32,623,337
Contributions in Aid of Construction (CIAC)	(17,368,022)	0	(17,368,022)	0	(17,368,022)
Accumulated Amortization of CIAC	8,697,105	385,259 (17)	9,082,364	0	9,082,364
Accumulated Deferred Income Taxes	(992,271)	119,705 (18)	(872,566)	0	(872,566)
Excess Deferred Income Taxes (EDIT)	(672,744)	0	(672,744)	0	(672,744)
Materials and Supplies	416,741	0	416,741	0	416,741
Prepayments	95,590	0	95,590	0	95,590
Cash Working Capital	861,095	(526,922) (19)	334,173	0	334,173
<u>Total Rate Base</u>	<u>23,212,500</u>	<u>426,373</u>	<u>23,638,873</u>	<u>0</u>	<u>23,638,873</u>
<u>Return on Rate Base</u>	<u>4.00%</u>		<u>5.46%</u>		<u>10.00%</u>
<u>Operating Margin</u>	<u>0.31%</u>		<u>8.15%</u>		<u>16.92%</u>
<u>Interest Expense</u>	<u>898,913</u>	<u>(393,226) (20)</u>	<u>505,687</u>	<u>0</u>	<u>505,687</u>

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Operating Experience, Rate Base and Rate of Return Reflecting the Company's Proposed Increase
For the Test Year Ended December 31, 2020
Water Operations

<u>Description</u>	(1) <u>Per</u> <u>Application</u> <u>\$</u>	(2) <u>ORS</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(3) <u>After ORS</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(4) <u>Company's</u> <u>Proposed</u> <u>Increase</u> <u>\$</u>	(5) <u>After</u> <u>Company's</u> <u>Proposed</u> <u>Increase</u> <u>\$</u>
<u>Operating Revenues:</u>					
Utility Operating Revenues	7,308,931	65,174 (1)	7,374,105	1,101,606 (21)	8,475,711
<u>Total Operating Revenues</u>	<u>7,308,931</u>	<u>65,174</u>	<u>7,374,105</u>	<u>1,101,606</u>	<u>8,475,711</u>
<u>Operating Expenses:</u>					
Operating Expenses	5,396,456	(338,335) (2)	5,058,121	0	5,058,121
Depreciation and Amortization Expenses	579,841	101,337 (3)	681,178	0	681,178
Amortization of Utility Plant Acquisition - Water Rights	43,256	(22,294) (4)	20,962	0	20,962
Amortization Expense - Other	0	21,522 (5)	21,522	0	21,522
Utility Regulatory Assessment Fees	0	52,267 (6)	52,267	7,808 (22)	60,075
Property Taxes	287,924	167,796 (7)	455,720	0	455,720
Payroll Taxes	40,985	4,671 (8)	45,656	0	45,656
Other Taxes and Licenses	95,837	(20,506) (9)	75,331	3,305 (23)	78,636
Federal Income Taxes	(4,589,162)	4,700,373 (10)	111,211	217,554 (24)	328,765
State Income Taxes	(959,604)	987,477 (11)	27,873	54,524 (25)	82,397
Deferred Federal Income Taxes	4,681,887	(4,681,887) (12)	0	0	0
Deferred State Income Taxes	882,310	(882,310) (13)	0	0	0
<u>Total Operating Expenses</u>	<u>6,459,730</u>	<u>90,111</u>	<u>6,549,841</u>	<u>283,191</u>	<u>6,833,032</u>
<u>Net Utility Operating Income (Loss)</u>	<u>849,201</u>	<u>(24,937)</u>	<u>824,264</u>	<u>818,415</u>	<u>1,642,679</u>
<u>Other Operating Income</u>					
Gains (Losses) from Disposition of Utility Property	(45,452)	45,452 (14)	0	0	0
Add: Customer Growth	0	0	0	24,959 (26)	24,959
Add: Amortization of Excess Accumulated Deferred Income Tax	0	0	0	27,818 (27)	27,818
<u>Net Income (Loss) for Return</u>	<u>803,749</u>	<u>20,515</u>	<u>824,264</u>	<u>871,192</u>	<u>1,695,456</u>
<u>Original Cost Rate Base: Water</u>					
Gross Plant in Service	33,250,642	1,544,011 (15)	34,794,653	0	34,794,653
Accumulated Depreciation	(11,555,949)	(774,322) (16)	(12,330,271)	0	(12,330,271)
Net Plant in Service	21,694,693	769,689	22,464,382	0	22,464,382
Contributions in Aid of Construction (CIAC)	(5,860,751)	0	(5,860,751)	0	(5,860,751)
Accumulated Amortization of CIAC	2,757,281	130,008 (17)	2,887,289	0	2,887,289
Accumulated Deferred Income Taxes	(784,865)	94,684 (18)	(690,181)	0	(690,181)
Excess Deferred Income Taxes (EDIT)	(532,126)	0	(532,126)	0	(532,126)
Materials and Supplies	416,741	0	416,741	0	416,741
Prepayments	92,362	0	92,362	0	92,362
Cash Working Capital	674,557	(478,131) (19)	196,426	0	196,426
<u>Total Rate Base</u>	<u>18,457,892</u>	<u>516,250</u>	<u>18,974,142</u>	<u>0</u>	<u>18,974,142</u>
<u>Return on Rate Base</u>	<u>4.35%</u>		<u>4.34%</u>		<u>8.94%</u>
<u>Operating Margin</u>	<u>3.73%</u>		<u>5.67%</u>		<u>15.21%</u>
<u>Interest Expense</u>	<u>530,947</u>	<u>(125,049) (20)</u>	<u>405,898</u>	<u>0</u>	<u>405,898</u>

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Operating Experience, Rate Base and Rate of Return Reflecting the Company's Proposed Increase
For the Test Year Ended December 31, 2020
Sewer Operations

<u>Description</u>	(1) <u>Per</u> <u>Application</u> \$	(2) <u>ORS</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> \$	(3) <u>After ORS</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> \$	(4) <u>Company's</u> <u>Proposed</u> <u>Increase</u> \$	(5) <u>After</u> <u>Company's</u> <u>Proposed</u> <u>Increase</u> \$
<u>Operating Revenues:</u>					
Utility Operating Revenues	2,168,238	85,365 (1)	2,253,603	254,390 (21)	2,507,993
<u>Total Operating Revenues</u>	<u>2,168,238</u>	<u>85,365</u>	<u>2,253,603</u>	<u>254,390</u>	<u>2,507,993</u>
<u>Operating Expenses:</u>					
Operating Expenses	1,492,300	(388,685) (2)	1,103,615	0	1,103,615
Depreciation and Amortization Expenses	271,637	42,270 (3)	313,907	0	313,907
Amortization of Utility Plant Acquisition Adjustments	0	0 (4)	0	0	0
Amortization Expense - Other	0	51,861 (5)	51,861	0	51,861
Utility Regulatory Assessment Fees	0	15,973 (6)	15,973	1,803 (22)	17,776
Property Taxes	199,543	(86,141) (7)	113,402	0	113,402
Payroll Taxes	28,404	3,236 (8)	31,640	0	31,640
Other Taxes and Licenses	66,419	(31,308) (9)	35,111	763 (23)	35,874
Federal Income Taxes	4,098,564	(4,001,147) (10)	97,417	50,239 (24)	147,656
State Income Taxes	857,019	(832,604) (11)	24,415	12,591 (25)	37,006
Deferred Federal Income Taxes	(4,181,377)	4,181,377 (12)	0	0	0
Deferred State Income Taxes	(787,988)	787,988 (13)	0	0	0
<u>Total Operating Expenses</u>	<u>2,044,521</u>	<u>(257,180)</u>	<u>1,787,341</u>	<u>65,396</u>	<u>1,852,737</u>
<u>Net Utility Operating Income (Loss)</u>	<u>123,717</u>	<u>342,545</u>	<u>466,262</u>	<u>188,994</u>	<u>655,256</u>
<u>Other Operating Income</u>					
Gains (Losses) from Disposition of Utility Property	611	(611) (14)	0	0	0
Add: Customer Growth	0	0	0	6,565 (26)	6,565
Add: Amortization of Excess Accumulated Deferred Income Tax	0	0	0	7,350 (27)	7,350
<u>Net Income (Loss) for Return</u>	<u>124,328</u>	<u>341,934</u>	<u>466,262</u>	<u>202,909</u>	<u>669,171</u>
<u>Original Cost Rate Base: Sewer</u>					
Gross Plant in Service	21,847,353	295,506 (15)	22,142,859	0	22,142,859
Accumulated Depreciation	(11,367,040)	(616,864) (16)	(11,983,904)	0	(11,983,904)
Net Plant in Service	10,480,313	(321,358)	10,158,955	0	10,158,955
Contributions in Aid of Construction (CIAC)	(11,507,271)	0	(11,507,271)	0	(11,507,271)
Accumulated Amortization of CIAC	5,939,824	255,251 (17)	6,195,075	0	6,195,075
Accumulated Deferred Income Taxes	(207,406)	25,021 (18)	(182,385)	0	(182,385)
Excess Deferred Income Taxes (EDIT)	(140,618)	0	(140,618)	0	(140,618)
Materials and Supplies	0	0	0	0	0
Prepayments	3,228	0	3,228	0	3,228
Cash Working Capital	186,538	(48,791) (19)	137,747	0	137,747
<u>Total Rate Base</u>	<u>4,754,608</u>	<u>(89,877)</u>	<u>4,664,731</u>	<u>0</u>	<u>4,664,731</u>
<u>Return on Rate Base</u>	<u>2.61%</u>		<u>10.00%</u>		<u>14.35%</u>
<u>Operating Margin</u>	<u>-11.24%</u>		<u>16.26%</u>		<u>22.70%</u>
<u>Interest Expense</u>	<u>367,966</u>	<u>(268,177) (20)</u>	<u>99,789</u>	<u>0</u>	<u>99,789</u>

Kiawah Island Utility, Inc.
Docket No. 2021-324-WS
Weighted Cost of Capital
For the Test Year Ended December 31, 2020

Combined Operations

Description	Capital Structure	Ratio	Per Application				After ORS Accounting and Pro Forma Adjustments				After Company's Proposed Increase			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 19,669,858	46.81%	\$ 10,865,771	4.57%	2.14%	\$ 496,566	\$ 11,065,356	4.57%	2.14%	\$ 505,687	\$ 11,065,356	4.57%	2.14%	\$ 505,687
Members' Equity	22,351,064	53.19%	12,346,729	3.49%	1.86%	431,511	12,573,517	6.24%	3.32%	784,839	12,573,517	14.78%	7.86%	1,858,940
Totals	\$ 42,020,922	100.00%	\$ 23,212,500		4.00%	\$ 928,077	\$ 23,638,873		5.46%	\$ 1,290,526	\$ 23,638,873		10.00%	\$ 2,364,627

Water Operations

Description	Capital Structure	Ratio	Per Application				After ORS Accounting and Pro Forma Adjustments				After Company's Proposed Increase			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 19,669,858	46.81%	\$ 8,640,139	4.57%	2.14%	\$ 394,854	\$ 8,881,796	4.57%	2.14%	\$ 405,898	\$ 8,881,796	4.57%	2.14%	\$ 405,898
Members' Equity	22,351,064	53.19%	9,817,753	4.16%	2.21%	408,895	10,092,346	4.15%	2.20%	418,366	10,092,346	12.78%	6.80%	1,289,558
Totals	\$ 42,020,922	100.00%	\$ 18,457,892		4.35%	\$ 803,749	\$ 18,974,142		4.34%	\$ 824,264	\$ 18,974,142		8.94%	\$ 1,695,456

Sewer Operations

Description	Capital Structure	Ratio	Per Application				After ORS Accounting and Pro Forma Adjustments				After Company's Proposed Increase			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 19,669,858	46.81%	\$ 2,225,632	4.57%	2.14%	\$ 101,711	\$ 2,183,561	4.57%	2.14%	\$ 99,789	\$ 2,183,561	4.57%	2.14%	\$ 99,789
Members' Equity	22,351,064	53.19%	2,528,976	0.89%	0.47%	22,617	2,481,170	14.77%	7.86%	366,473	2,481,170	22.95%	12.21%	569,382
Totals	\$ 42,020,922	100.00%	\$ 4,754,608		2.61%	\$ 124,328	\$ 4,664,731		10.00%	\$ 466,262	\$ 4,664,731		14.35%	\$ 669,171